

**Village of Ashley
Gratiot County, Michigan**

FINANCIAL STATEMENTS

February 29, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

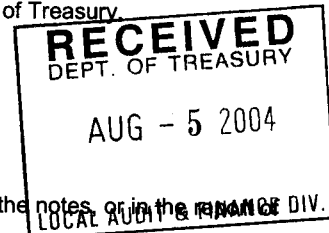
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Ashley	County Gratiot
Audit Date 2/29/04	Opinion Date 5/28/04	Date Accountant Report Submitted to State: 8/4/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the financial comments and recommendations



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.			
Street Address 108 N. Spring Street		City St. Johns	State MI
Accountant Signature <i>Abraham & Gaffney, P.C. John R. K...</i>		ZIP 48879	Date 7/30/04

Village of Ashley
Gratiot County, Michigan

February 29, 2004

VILLAGE COUNCIL AND ADMINISTRATION

Ms. Marcella Thompson	President
Mr. Thomas Thiell	Trustee
Mr. Larry Mephram	Trustee
Mr. Duane Schneider	Trustee
Ms. Ann Paksi	Trustee
Ms. Barbara Haruska	Trustee
Mr. Jamerson Bearden	Trustee
Ms. Carol Denniston	Clerk
Ms. Wanda Beracy	Treasurer

Village of Ashley
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Principals

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Karen A. Roka, CPA
James A. Huguelet, CPA
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William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of Certified
Public Accountants
and
Michigan Association of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Ashley
Ashley, Michigan

We have audited the accompanying combined financial statements of the Village of Ashley, Michigan, as of February 29, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Village has not maintained a complete record of its general fixed assets and, accordingly, a statement of General Fixed Assets, required by accounting principles generally accepted in the United States of America, is not included in the financial statements. The amount that should be recorded in the General Fixed Asset Account Group is not known.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Village of Ashley, Michigan as of February 29, 2004, and the results of its operations and cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining and individual fund financial statements listed in the Table of Contents under Supplemental Financial Information are presented for purposes of additional analysis and are not a required part of the combined financial statements of the Village of Ashley, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements, and in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 28, 2004

COMBINED FINANCIAL STATEMENTS

Village of Ashley

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP

February 29, 2004

	Governmental Fund Types		Proprietary Fund Type
	General	Special Revenue	Enterprise
ASSETS			
Cash and cash equivalents	\$ 119,147	\$ 86,574	\$ 101,158
Investments	161,434	7,883	-
Receivables			
Taxes	5,936	-	-
Accounts	5,637	-	8,639
Due from other governmental units - State	-	9,396	-
Amount to be provided for retirement of general long-term debt	-	-	-
Fixed assets (net of accumulated depreciation)	-	-	260,184
TOTAL ASSETS	\$ 292,154	\$ 103,853	\$ 369,981
LIABILITIES			
Payables			
Accounts	\$ 3,948	\$ -	\$ 613
Customer deposits	-	-	300
Wages	3,234	-	-
Due to others	-	-	2,100
Accrued liabilities	2,890	-	-
Note payable	-	-	-
TOTAL LIABILITIES	10,072	-0-	3,013
FUND EQUITY			
Contribution in aid of construction			
Federal Government	-	-	21,685
State Government	-	-	6,364
Retained earnings			
Unreserved	-	-	338,919
Fund balance			
Unreserved			
Undesignated	282,082	103,853	-
TOTAL FUND EQUITY	282,082	103,853	366,968
TOTAL LIABILITIES AND FUND EQUITY	\$ 292,154	\$ 103,853	\$ 369,981

See accompanying notes to combined financial statements.

<u>Account Group</u>		<u>Totals</u>	
<u>General</u>		<u>(Memorandum</u>	
<u>Long-Term</u>		<u>Only)</u>	
<u>Debt</u>			
\$	-	\$	306,879
	-		169,317
	-		5,936
	-		14,276
	-		9,396
	84,499		84,499
	-		260,184
\$	84,499	\$	850,487
\$	-	\$	4,561
	-		300
	-		3,234
	-		2,100
	-		2,890
	84,499		84,499
	84,499		97,584
	-		21,685
	-		6,364
	-		338,919
	-		385,935
	-0-		752,903
\$	84,499	\$	850,487

Village of Ashley

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
ALL GOVERNMENTAL FUND TYPES

Year Ended February 29, 2004

	General	Special Revenue	Totals (Memorandum Only)
REVENUES			
Taxes	\$ 70,671	\$ -	\$ 70,671
Licenses and permits	360	-	360
Intergovernmental	58,722	50,550	109,272
Charges for services	83,589	-	83,589
Interest and rents	6,495	719	7,214
Other	15,197	-	15,197
TOTAL REVENUES	235,034	51,269	286,303
EXPENDITURES			
General government	135,756	-	135,756
Public safety	22,424	-	22,424
Public works	23,284	31,026	54,310
Health and welfare	6,157	-	6,157
Recreation and cultural	354	-	354
Other	272	-	272
Debt service	19,098	-	19,098
TOTAL EXPENDITURES	207,345	31,026	238,371
EXCESS OF REVENUES OVER EXPENDITURES	27,689	20,243	47,932
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	8,992	8,992
Operating transfers out	-	(8,992)	(8,992)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	27,689	20,243	47,932
Fund balances, beginning of year	254,393	83,610	338,003
Fund balances, end of year	\$ 282,082	\$ 103,853	\$ 433,867

See accompanying notes to combined financial statements.

Village of Ashley

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES

Year Ended February 29, 2004

	General Fund		Variance
	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Taxes	\$ 60,000	\$ 70,671	\$ 10,671
Licenses and permits	150	360	210
Intergovernmental	50,000	58,722	8,722
Charges for services	61,068	83,589	22,521
Interest and rents	3,300	6,495	3,195
Other	-	15,197	15,197
TOTAL REVENUES	174,518	235,034	60,516
EXPENDITURES			
General government	134,158	135,756	(1,598)
Public safety	23,200	22,424	776
Public works	25,960	23,284	2,676
Health and welfare	6,100	6,157	(57)
Recreation and cultural	1,000	354	646
Other	-	272	(272)
Debt service	19,100	19,098	2
TOTAL EXPENDITURES	209,518	207,345	2,173
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(35,000)	27,689	62,689
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-0-
Operating transfers out	-	-	-0-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(35,000)	27,689	62,689
Fund balances, beginning of year	254,393	254,393	-0-
Fund balances, end of year	\$ 219,393	\$ 282,082	\$ 62,689

See accompanying notes to combined financial statements.

Special Revenue Funds

Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -0-
-	-	-0-
37,000	50,550	13,550
-	-	-0-
-	719	719
-	-	-0-
37,000	51,269	14,269
-	-	-0-
-	-	-0-
37,000	31,026	5,974
-	-	-0-
-	-	-0-
-	-	-0-
-	-	-0-
37,000	31,026	5,974
-0-	20,243	20,243
-	8,992	8,992
-	(8,992)	(8,992)
-0-	-0-	-0-
-0-	20,243	20,243
83,610	83,610	-0-
\$ 83,610	\$ 103,853	\$ 20,243

Village of Ashley

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - PROPRIETARY FUND TYPE

Year Ended February 29, 2004

	<u>Enterprise</u>
OPERATING REVENUES	
Charges for services	\$ 106,066
Miscellaneous	<u>3,545</u>
TOTAL OPERATING REVENUES	109,611
OPERATING EXPENSES	
Salaries and wages	16,259
Supplies	8,080
Contractual services	17,655
Utilities	5,450
Repairs and maintenance	20
Equipment rental	12,776
Insurance	1,031
Depreciation	21,751
Miscellaneous	<u>397</u>
TOTAL OPERATING EXPENSES	<u>83,419</u>
OPERATING INCOME	26,192
NONOPERATING REVENUES	
Interest revenue	<u>490</u>
NET INCOME	26,682
Add depreciation on contributed fixed assets	<u>4,675</u>
INCREASE IN RETAINED EARNINGS	31,357
Retained earnings, beginning of year	<u>307,562</u>
Retained earnings, end of year	<u><u>\$ 338,919</u></u>

See accompanying notes to combined financial statements.

Village of Ashley

COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

Year Ended February 29, 2004

	<u>Enterprise</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$ 26,192
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	21,751
(Increase) in accounts receivable	(3,592)
Increase in accounts payable	<u>(1,606)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	42,745
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	490
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital purchases	<u>(32,091)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS DURING YEAR	11,144
Cash and cash equivalents, beginning of year	<u>90,014</u>
Cash and cash equivalents, end of year	<u><u>\$ 101,158</u></u>

See accompanying notes to combined financial statements.

Village of Ashley

NOTES TO COMBINED FINANCIAL STATEMENTS

February 29, 2004

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Ashley is located in Gratiot County, Michigan and has a population of approximately 526. The Village of Ashley operates with a Village President/Council form of government and provides services to its residents in many areas including general government, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President, Clerk, Treasurer, and six (6) trustees who are selected at large for overlapping four-year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5; these financial statements present all financial activities of the Village of Ashley (primary government). The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the Combined financial statements of the Village of Ashley contain all the funds and account groups controlled by the Village Council.

2. Basis of Presentation

The accounts of the Village are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Village resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into three (3) fund types and one (1) account group as follows:

GOVERNMENTAL FUNDS

- a. General Fund - The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Special Revenue Funds (Major Street, Local Street) - The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

PROPRIETARY FUNDS

- a. Enterprise Funds (Sewer System, Water System) - The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

NOTES TO COMBINED FINANCIAL STATEMENTS

February 29, 2004

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

ACCOUNT GROUP

- a. General Long-Term Debt Account Group - The General Long-Term Debt Account Group is used to establish accounting control and accountability for the unmatured principal on the Village's long-term debt.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Balance Sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable, but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred.

5. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown in the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to March 1, the Village Council prepares the proposed operating budgets for the fiscal year commencing March 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to March 1, the budgets are legally adopted with passage by Council vote.
- d. The budgets are legally adopted at the activity level; however, they are maintained at the account level for control purposes.

NOTES TO COMBINED FINANCIAL STATEMENTS

February 29, 2004

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

- e. After the budgets are adopted, all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at February 29, 2004 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted by the Village Council. The individual budgets were appropriately approved by the Village Council in accordance with required procedures.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents are temporary investments that consist of various money market checking and savings accounts, certificates of deposit with an original maturity of 90 days or less, and mutual funds. The cash and cash equivalents are recorded at market value.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated market value.

7. Property Tax

The Village of Ashley bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Ashley on July 1 and are payable without penalty through September 1. All real property taxes not paid to the Village by September 15 are turned over to the Gratiot County Treasurer for collection. The Gratiot County Treasurer remits payments to the Village on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 12.5 mills (\$12.50 per \$1,000 of assessed valuation) for general governmental services. For the year ended February 29, 2004, the Village levied 11.4633 mills for general governmental services. The total taxable value for the 2003 levy for property within the Village was \$5,991,252.

8. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as operating transfers.

The General Fund records charges for administrative services and equipment rental to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

9. Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources".

NOTES TO COMBINED FINANCIAL STATEMENTS

February 29, 2004

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Fixed Assets and Long-Term Liabilities - continued

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in a General Fixed Assets Account Group, rather than in the governmental funds. The general fixed assets are recorded as expenditures at the time of purchase in the governmental fund types. However, the Village has not included the General Fixed Assets Account Group in this report.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components.

Fixed assets are recorded at cost, or if donated, at fair market value at the date of donation. Expenditures that materially extend the useful life of existing assets are capitalized. Public domain (infrastructure) general fixed assets, which include roads, bridges, curbs and gutters, sidewalks, and drains are not capitalized.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

The estimated useful lives are:

Utility plant, wells, and mains	33-50 years
Sewer system	50 years
Equipment	5-10 years

10. Comparative Data

Comparative data has not been presented in the financial statements due to the Village's requirement to prepare audited financial statements only once every two years.

11. Total Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or changes in financial position in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

NOTES TO COMBINED FINANCIAL STATEMENTS

February 29, 2004

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, or a State or Federally chartered savings and loan association, savings, bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

As of February 29, 2004, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Cash</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Savings	\$ 61,822	\$ 61,822
Money market checking	<u>245,057</u>	<u>243,429</u>
	306,879	305,251
<u>Investments</u>		
Certificates of deposit	<u>169,317</u>	<u>169,317</u>
	<u>\$ 476,196</u>	<u>\$ 474,568</u>

Deposits of the Village are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Village. As of February 29, 2004, the Village accounts were insured by the FDIC for \$200,000, and the amount of \$274,568 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Village of Ashley

NOTES TO COMBINED FINANCIAL STATEMENTS

February 29, 2004

NOTE C: FIXED ASSETS

A summary of Proprietary Fund Type fixed assets at February 29, 2004 follows:

	<u>Enterprise</u>
Land	\$ 12,405
Utility plant, wells, and mains	799,493
Equipment	<u>109,408</u>
Total	921,306
Less: accumulated depreciation	<u>(661,122)</u>
Net fixed assets	<u>\$ 260,184</u>

NOTE D: RISK MANAGEMENT

The Village participates in a pool, the Michigan Municipal League Liability and Property Pool, with other municipalities for various risks of loss including liability, crime bond and oath, and property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The Village also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the Village for the year ended February 29, 2004.

	<u>Balance</u> <u>Mar. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Feb. 29, 2004</u>
Fire Truck note payable	<u>\$ 99,375</u>	<u>\$ -0-</u>	<u>\$ 14,876</u>	<u>\$ 84,499</u>

Note Payable

\$153,000 Fire truck loan dated October 6, 1998, due in annual installments of \$19,099 through October 6, 2008, with interest at 4.25 percent.

\$ 84,499

The annual requirements to pay the debt outstanding as of February 29, 2004 is as follows:

<u>Year Ending</u> <u>February 28,</u>	<u>Fire Truck</u>
2005	\$ 19,099
2006	19,099
2007	19,099
2008	19,099
2009	<u>19,099</u>
	95,495
Less: interest	<u>(10,996)</u>
	<u>\$ 84,499</u>

Village of Ashley

NOTES TO COMBINED FINANCIAL STATEMENTS

February 29, 2004

NOTE F: SEGMENT INFORMATION

The Village operates the Sewer System and Water System utilities providing services to the various Village residents. Segment information for the fiscal year ended February 29, 2004, is as follows:

	<u>Sewer System</u>	<u>Water System</u>	<u>Total</u>
Operating revenues	\$ 41,299	\$ 68,312	\$ 109,611
Operating expenses			
Depreciation	17,838	3,913	21,751
Other	22,299	39,369	61,668
Operating income	1,162	25,030	26,192
Net income	1,217	25,465	26,682
Contributed capital	28,049	-	28,049
Net working capital	34,832	71,952	106,784
Total assets	232,417	137,564	369,981
Total equity	232,292	134,676	366,968

NOTE G: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the combined financial statements, the Village's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level.

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the combined financial statements, the Village's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level.

During the year ended February 29, 2004, the Village incurred expenditures in the General and Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Hall and grounds	\$ 117,900	\$ 120,778	\$ 2,878
Treasurer	2,500	2,552	52
Health and Welfare			
Ambulance	6,100	6,157	57
Other	-	272	272
Special Revenue Fund			
Major Street			
Operating transfers out	-	8,992	8,992
Local Street			
Public works	9,800	18,060	8,260

NOTES TO COMBINED FINANCIAL STATEMENTS

February 29, 2004

NOTE H: RETIREMENT PLAN

The Village of Ashley is the sponsor of a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) plan for the sole benefit of its employees. The Village of Ashley Pension Plan is a SIMPLE defined contribution pension benefit plan, which is authorized under the 408(p) of the Internal Revenue Code. All Village employees are eligible to participate. During the year ended February 29, 2004, the Village of Ashley was required to contribute for all eligible employees at a minimum rate of 3% of wages. Employees may elect to contribute additional amounts at a predetermined rate of their compensation. The plan is administered by Capital Guardian Trust.

For the year ended February 29, 2004, the Village had a total payroll of \$64,694. The Village of Ashley Retirement Plan covered a payroll of \$42,667. The Village made contributions to the retirement plan in the amount of \$1,280 in employer contributions and voluntary contributions from employees in the amount of \$1,173

NOTE I: BUILDING AND ZONING FINANCIAL INFORMATION

The Village elected to report the financial activities of the building and zoning activity in the general fund. The following is the required information as it relates to this activity for the year ended February 29, 2004.

REVENUES	
Building Permits	\$ 360
EXPENDITURES	
Contracted services	228
Supplies	<u>100</u>
TOTAL EXPENDITURES	<u>328</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 32</u>

NOTE J: GASB STATEMENT NO. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement). Certain of the significant changes in the Statement include the following:

For the first time the financial statements will include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Village's activities, including reporting infrastructure assets (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

The general provisions of GASB Statement No. 34 must be implemented by Village of Ashley no later than the fiscal year ending February 28, 2006; the retroactive reporting of infrastructures, if any, must be implemented no later than the year ending February 28, 2010.

SUPPLEMENTAL FINANCIAL INFORMATION

Village of Ashley

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

Year Ended February 29, 2004

REVENUES	Budget	2004 Actual	Variance Favorable (Unfavorable)
Taxes			
General property tax	\$ 60,000	\$ 68,586	\$ 8,586
Penalties and interest	-	422	422
Tax collection fees	-	694	694
Special assessments	-	969	969
Total taxes	60,000	70,671	10,671
Licenses and permits			
Building and zoning permits	150	360	210
Intergovernmental - State			
State revenue sharing - sales tax	50,000	58,722	8,722
Charges for services			
Equipmental rental	-	23,943	23,943
Ambulance runs	-	150	150
Ambulance contracts	4,100	3,600	(500)
Fire runs	-	24	24
Fire contracts	41,008	37,689	(3,319)
Rubbish collection	15,960	18,183	2,223
Total charges for services	61,068	83,589	22,521
Interest and rents			
Interest	3,000	6,245	3,245
Rent - equipment	300	250	(50)
Total interest and rents	3,300	6,495	3,195
Other			
Donations	-	348	348
Refunds and reimbursements	-	11,475	11,475
Miscellaneous	-	3,374	3,374
Total other	-0-	15,197	15,197
TOTAL REVENUES	174,518	235,034	60,516

Village of Ashley

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - CONTINUED

Year Ended February 29, 2004

	Budget	2004 Actual	Variance Favorable (Unfavorable)
EXPENDITURES			
General government			
Legislative	\$ 2,160	1,988	\$ 172
Executive	461	426	35
Elections	1,500	417	1,083
Clerk	9,637	9,595	42
Treasurer	2,500	2,552	(52)
Hall and grounds	117,900	120,778	(2,878)
Total general government	134,158	135,756	(1,598)
Public safety			
Fire department	23,200	22,424	776
Public works			
Street lighting	10,000	7,924	2,076
Rubbish collection	15,960	15,360	600
Total public works	25,960	23,284	2,676
Health and welfare			
Ambulance	6,100	6,157	(57)
Recreation and cultural			
Parks	1,000	354	646
Other	-	272	(272)
Debt service			
Principal	14,876	14,876	-
Interest	4,224	4,222	2
Total debt service	19,100	19,098	2
TOTAL EXPENDITURES	209,518	207,345	2,173
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(35,000)	27,689	58,343
Fund balance, beginning of year	254,393	254,393	-0-
Fund balance, end of year	\$ 219,393	\$ 282,082	\$ 58,343

Village of Ashley
Special Revenue Funds
COMBINING BALANCE SHEET
February 29, 2004

	Major Street	Local Street	Total
ASSETS			
Cash and cash equivalents	\$ 46,506	\$ 40,068	\$ 86,574
Investments	7,883	-	7,883
Due from other governmental units - State	6,718	2,678	9,396
TOTAL ASSETS	<u>\$ 61,107</u>	<u>\$ 42,746</u>	<u>\$ 103,853</u>
LIABILITIES	\$ -	\$ -	\$ -0-
FUND BALANCES			
Unreserved			
Undesignated	<u>61,107</u>	<u>42,746</u>	<u>103,853</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 61,107</u>	<u>\$ 42,746</u>	<u>\$ 103,853</u>

Village of Ashley

Special Revenue Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 29, 2004

	Major Street	Local Street	Total
REVENUES			
Intergovernmental - State	\$ 36,176	\$ 14,374	\$ 50,550
Interest	641	78	719
TOTAL REVENUES	36,817	14,452	51,269
EXPENDITURES			
Public works			
Highways and streets	12,966	18,060	31,026
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	23,851	(3,608)	20,243
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	8,992	8,992
Operating transfers out	(8,992)	-	(8,992)
TOTAL OTHER FINANCING SOURCES (USES)	(8,992)	8,992	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	14,859	5,384	20,243
Fund balances, beginning of year	46,248	37,362	83,610
Fund balances, end of year	\$ 61,107	\$ 42,746	\$ 103,853

Village of Ashley

Major Street Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

Year Ended February 29, 2004

	Budget	2004 Actual	Variance Favorable (Unfavorable)
REVENUES			
Intergovernmental - State			
Gas and weight tax	\$ 24,000	\$ 36,176	\$ 12,176
Interest	-	641	641
TOTAL REVENUES	24,000	36,817	12,817
EXPENDITURES			
Public works			
Street Maintenance			
Salaries and wages		2,507	
Supplies		5,388	
Equipment rental		4,823	
Insurance		248	
TOTAL EXPENDITURES	24,000	12,966	11,034
EXCESS OF REVENUES OVER EXPENDITURES	-0-	23,851	23,851
OTHER FINANCING USES			
Operating transfers out	-	(8,992)	(8,992)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	-0-	14,859	14,859
Fund balance, beginning of year	46,248	46,248	-0-
Fund balance, end of year	\$ 46,248	\$ 61,107	\$ 14,859

Village of Ashley

Local Street Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

Year Ended February 29, 2004

	Budget	2004 Actual	Variance Favorable (Unfavorable)
REVENUES			
Intergovernmental - State			
Gas and weight tax	\$ 13,000	\$ 14,374	\$ 1,374
Interest	-	78	78
TOTAL REVENUES	13,000	14,452	1,452
EXPENDITURES			
Public works			
Street Maintenance			
Salaries and wages		2,553	
Insurance		248	
Office Supplies		2,475	
Equipment rental		6,344	
Capital outlay		4,847	
Miscellaneous		1,593	
TOTAL EXPENDITURES	13,000	18,060	(5,060)
EXCESS OF REVENUES (UNDER) EXPENDITURES	-0-	(3,608)	(3,608)
OTHER FINANCING SOURCES			
Operating transfers in	-	8,992	8,992
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	-0-	5,384	5,384
Fund balance, beginning of year	37,362	37,362	-0-
Fund balance, end of year	\$ 37,362	\$ 42,746	\$ 5,384

Village of Ashley
Enterprise Funds
COMBINING BALANCE SHEET

February 29, 2004

	Sewer System	Water System	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 31,345	\$ 69,813	\$ 101,158
Accounts receivable	3,612	5,027	8,639
Total current assets	34,957	74,840	109,797
Fixed assets			
Land	12,405	-	12,405
Utility plant, wells, and mains	592,493	207,000	799,493
Equipment	63,830	45,578	109,408
Accumulated depreciation	(471,268)	(189,854)	(661,122)
Net fixed assets	197,460	62,724	260,184
TOTAL ASSETS	<u>\$ 232,417</u>	<u>\$ 137,564</u>	<u>\$ 369,981</u>
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 125	\$ 488	\$ 613
Customer deposits payable	-	300	300
Due to others	-	2,100	2,100
TOTAL LIABILITIES	125	2,888	3,013
FUND EQUITY			
Contribution in aid of construction			
Federal government	21,685	-	21,685
State government	6,364	-	6,364
Retained earnings - unreserved	204,243	134,676	338,919
TOTAL FUND EQUITY	232,292	134,676	366,968
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 232,417</u>	<u>\$ 137,564</u>	<u>\$ 369,981</u>

Village of Ashley

Enterprise Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS

Year Ended February 29, 2004

	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$ 40,229	\$ 65,837	\$ 106,066
Miscellaneous	1,070	2,475	3,545
TOTAL OPERATING REVENUES	41,299	68,312	109,611
OPERATING EXPENSES			
Salaries and wages	5,025	11,234	16,259
Supplies	2,426	5,654	8,080
Contractual services	6,229	11,426	17,655
Utilities	1,217	4,233	5,450
Repairs and maintenance	-	20	20
Equipment rental	6,628	6,148	12,776
Insurance	384	647	1,031
Depreciation	17,838	3,913	21,751
Miscellaneous	390	7	397
TOTAL OPERATING EXPENSES	40,137	43,282	83,419
OPERATING INCOME	1,162	25,030	26,192
NONOPERATING REVENUES			
Interest revenue	55	435	490
NET INCOME	1,217	25,465	26,682
Add depreciation on contributed fixed assets	4,675	-	4,675
INCREASE IN RETAINED EARNINGS	5,892	25,465	31,357
Retained earnings, beginning of year	198,351	109,211	307,562
Retained earnings, end of year	\$ 204,243	\$ 134,676	\$ 338,919

Village of Ashley

Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended February 29, 2004

	<u>Sewer System</u>	<u>Water System</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income	\$ 1,162	\$ 25,030	\$ 26,192
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	17,838	3,913	21,751
(Increase) in accounts receivable	(2,912)	(680)	(3,592)
Increase (decrease) in accounts payable	<u>(1,615)</u>	<u>9</u>	<u>(1,606)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,473	28,272	42,745
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	55	435	490
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital purchases	<u>(4,999)</u>	<u>(27,092)</u>	<u>(32,091)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING YEAR	9,529	1,615	11,144
Cash and cash equivalents, beginning of year	<u>21,816</u>	<u>68,198</u>	<u>90,014</u>
Cash and cash equivalents, end of year	<u>\$ 31,345</u>	<u>\$ 69,813</u>	<u>\$ 101,158</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

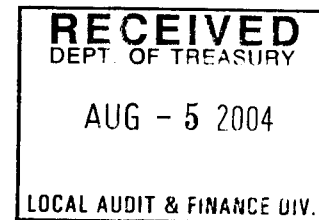
Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of Certified
Public Accountants
and
Michigan Association of
Certified Public Accountants

MANAGEMENT LETTER



To the Honorable President and
Members of the Village Council
Village of Ashley
Ashley, Michigan

As you know, we have recently completed our audit of the records of the Village of Ashley, Michigan as of and for the year ended February 29, 2004. In connection with the audit, we feel that certain a change in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management. These weaknesses is not considered reportable conditions in relation to the general purpose financial statements of the Village of Ashley, Michigan but may be areas of possible improvement.

1. The Village should take physical inventory of their general fixed assets.

During our analysis of general fixed assets activity for the year and through discussions with management related to general fixed assets, we noted that the Village has not maintained historical cost information for general fixed assets on a year-to-year basis and a detailed record of general fixed asset balances by governmental function detailing acquisition year, useful life, etc. has not been maintained by the Village for every asset.

The Village is required to implement GASB Statement No. 34 no later than fiscal year ending February 29, 2006, which will require government-wide financial statements prepared on the full accrual basis of accounting. Under the full accrual basis of accounting, capital assets are depreciated over their estimated useful lives. To the extent possible, the depreciation expense should be allocated to the appropriate function of the government.

We suggest the Village establish a capitalization policy, inventory their capital assets, determine historical cost or estimated historical cost, and estimated useful lives of those capital assets. Such information should then be used to calculate accumulated depreciation for the capital assets through February 28, 2005. This will be used for the beginning balances for the 05/06 year for GASB No. 34 implementation. Compiling this data related to the Village's capital assets will not only facilitate the implementation of GASB Statement No. 34, it will also increase your internal control over capital assets and lessen the risk of misappropriation of assets.

2. The Village should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Village may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, utility billing, etc.).

While this is a common occurrence in small organizations due to the limited number of employees, the Village Council should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Village review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Village Council provide a greater review and supervision of employee functions and procedures.

3. Budgets should be monitored and amended when necessary.

As noted in the annual financial statements, the budgeted expenditures in certain funds had budgeted activities which exceeded the amounts appropriated. The variances noted were in the General and Special Revenue Funds.

The Michigan Public Act 621 of 1978, as amended, provides that the Village adopt a formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We suggest the Village monitor expenditures against the adopted budgets and make appropriate budget amendments in a timely fashion as needed.

4. The Village should adopt a written credit card policy.

During the course of the audit it was noted that the Village had credit cards to purchase supplies. An inquiry of Village personnel indicated that the Village Board had not adopted a formal written credit card policy as required by P.A. 266 of 1995 (MCL 129.241).

We suggest that the Village adopt a formal credit card policy as soon as possible to comply with the State of Michigan requirements. The policy must include and/or address the following items:

- a. An officer or employee designated to oversee credit card issuance, accounting, monitoring, and compliance with the policy;
- b. The use of the credit card only for the purchase of goods and services for the official business of the local unit;
- c. User of the credit card must submit documentation of what goods and services were purchased, the cost, the date of purchase, and the official business for which purchase was made;
- d. Office or employee is responsible for credit card protection and custody and must report lost or stolen cards;
- e. Credit card to be returned to local unit at termination of official or employee;
- f. Internal control systems over the use of credit cards;
- g. Approval of credit card invoices prior to payment
- h. The balance including interest must be paid within 60 days of the initial statement date;
- i. Disciplinary measures for unauthorized use of a credit card; and
- j. Other matters the local unit considers advisable.

5. The Village should escheat unclaimed property to the State of Michigan.

During our audit, it was noted that the Village had outstanding checks listed on their General Fund bank reconciliation that were more than one (1) year old. The Michigan Public Act 29 of 1995 provides that the Department report and escheat unclaimed property to the State of Michigan.

We suggest the Village attempt to contact the payees in an effort to clear old outstanding checks. In the event that the rightful property owners cannot be located, we suggest the Village review their unclaimed property and escheat funds to the State of Michigan as necessary.

6. Rates charged for utility usage should be reviewed.

During the course of our audit, we noted that all five (5) of the utility bills tested applied incorrect rates for water, sewage and refuse services. It was also noted that there is no board authorized rate for refuse service.

We suggest that the Village review and revise their billing procedures to ensure that customers are charged appropriate amounts in accordance with Council resolutions. We also recommend the Village adopt a formal resolution stating the rate for all utility services including refuse, water and sewer services.

7. The Village should adopt an electronic funds transfer policy.

During the course of the audit it was noted that the Village had used electronic fund transfers to make payments but did not have the necessary electronic funds transfer policy. The State of Michigan requires such a policy to be in place prior to conducting these transactions.

We suggest that the Village adopt a formal electronic fund transfer policy as soon as possible to comply with the State of Michigan requirements

8. All pay rates should be authorized at the Village Council level.

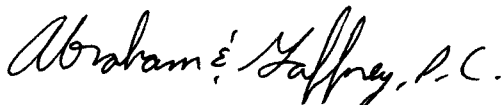
It was noted during our test of the Village payroll process to test individual pay rates, including increases in pay rates, these modifications were not approved by the Council or documented in the minutes to the Council meetings or in individual personnel files.

We suggest pay rates be approved at Council level and recorded in the minutes to the Council meetings stating the pay rate and employee name. A copy of the Council minutes should also be placed in the individual personnel file.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the general purpose financial statements, and this report does not affect our report on the general purpose financial statements dated February 29, 2004

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Ashley and is not intended to be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation to us during our audit. We are available to discuss any issues with you and to provide assistance in the implementation of improvements.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 28, 2004